



County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

October 5, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

CONTRACT COST OF LIVING ADJUSTMENTS AND LIVING WAGE CONTRACTS

On September 26, 2006, your Board, on motion of Supervisor Yaroslavsky, approved amendments to two recommended parks maintenance contracts in order to limit cost of living adjustments (COLAs) in the option years to non-salary related increased contractor costs unless the contractors could demonstrate that their labor costs actually increased. Supervisor Yaroslavsky also moved that your Board establish a policy requiring that all COLA provisions in Living Wage contracts exclude the cost of labor from the base upon which the COLA is calculated, unless the contractor can show that his/her labor costs will actually increase. On motion of Mayor Antonovich, your Board directed this Office to work with the Director of Personnel to determine the cost impacts of applying these provisions to all Living Wage contracts and report back in 30 days.

Related to this action, your Board also instructed our Office to work with the Auditor-Controller, Affirmative Action Compliance Officer, Director of Internal Services and County Counsel to examine various objectives regarding the Living Wage Program (LWP), including a potential increase in the rate and a mechanism for regularly updating the rate, and to return with findings, recommendations and proposed Ordinance amendment language, as appropriate, within 45 days. This memorandum addresses the Board Order related to contract COLA provisions; we are working with the referenced departments on the related instruction regarding the LWP and will separately provide a report to your Board within 45 days.

As further outlined below, countywide implementation of this policy could only result in undetermined cost savings to the County due to lower contract COLAs paid to contractors. However, there will be undetermined administrative expense related to implementing and monitoring the policy. We have worked with County Counsel and the Department of Human Resources and they concur with this conclusion.

COLA Policy

Pursuant to Board Policy No. 5.070, a COLA is defined as *“any contract price increase during the term of the contract that is not a cost included in the initially negotiated contract price, and is not for an increased service level or workload. A COLA reflects changes in the cost of doing business based on inflation.”* The current policy caps a COLA at the lesser of either the general salary movement granted to County employees, or the Consumer Price Index for Urban Areas (CPI-U) for the most recently published percentage change for the 12-month period preceding the contract anniversary date. COLA provisions in contracts are not mandatory. However, if a COLA is recommended in a contract, the department must indicate this in its Board letter and specify whether the contract provision complies with the County’s COLA policy.

Living Wage Ordinance

The County’s Living Wage Ordinance requires non-exempt County contractors to pay \$9.46 per hour or \$8.32 per hour plus \$1.14 in health benefits to their employees on Proposition A and cafeteria services contracts. This provision ensures that employees providing services under such contracts receive wages deemed to be sufficient to meet basic standard of living costs.

Analysis

As noted above, the County may generate undetermined cost savings as a direct result of excluding cost of labor from the base upon which the COLA is calculated unless the contractor can demonstrate that their labor costs have increased. The major portion of Living Wage contract costs typically are attributable to employee salaries and benefits, with other (non-personnel) costs making up the remaining balance of the costs. If the COLA policy is amended by your Board to include this provision, we believe overall COLA contract costs will decrease, resulting in increased savings for the County. Some contractors will be able to demonstrate increased labor costs making them eligible for the full COLA, while others will have their COLA reduced if they are not increasing employee salaries. We are unable to predict at this time the relative percentage and cost impact of these two eventualities. As noted above, there will be undetermined administrative expense related to departmental implementation and monitoring of the policy.

Should your Board make a determination that this provision, as applicable, should be included in the COLA policy affecting all future Living Wage contracts, and in order to

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provide immediate direction to departments currently soliciting or negotiating Living Wage contracts, we recommend that your Board:

1. Approve a policy requiring that all COLA provisions in Living Wage contracts exclude the cost of labor from the base upon which the COLA is calculated, unless the contractor can show that his/her labor costs will actually increase, and instruct this Office to update the Policy Manual to reflect this provision.
2. Direct departments to immediately include this provision, as applicable, in their current contracting processes, including any Requests for Proposals, contract negotiations, contract recommendations and contract awards. Contract language to accomplish this objective, revising existing COLA language, is attached. As noted above per current Board policy, COLAs are not mandatory.
3. In the event that a department is at the contract award stage of the solicitation process and the recommended vendor is unwilling to adhere to this new provision, authorize the department to execute month-to-month contract extensions with the incumbent contractor pending resolicitation and award.

If you have any questions regarding this matter or require additional information, please contact me, or your staff may contact Vincent Amerson of this Office at (213) 974-1168 or at vamerson@cao.lacounty.gov.

DEJ: MKZ
DS:VLA:ib

Attachment

c: All Department Heads

COST OF LIVING ALLOWANCE LANGUAGE FOR LIVING WAGE CONTRACTS

Amendment language:

"The contract (hourly, daily, monthly, etc.) amount may be adjusted annually based on the increase or decrease in the U.S. Department of Labor, Bureau of Labor Statistics' Consumer Price Index (CPI) for the Los Angeles-Riverside-Orange County Area for the most recently published percentage change for the 12-month period preceding the contract anniversary date, which shall be the effective date for any cost of living adjustment. However, any increase shall not exceed the general salary movement granted to County employees as determined by the Chief Administrative Office as of each July 1 for the prior 12-month period. Furthermore, should fiscal circumstances ultimately prevent the Board from approving any increase in County employee salaries, no cost of living adjustments will be granted." Where the county decides to grant a cost of living adjustment (COLA) pursuant to this paragraph for contract option years, it may, in its sole discretion exclude the cost of labor (including the cost of wages and benefits paid to employees providing services under this contract) from the base upon which a COLA is calculated, unless the contractor can show that his/her labor cost will actually increase.